Annual Report 1971

indusmin limited

Year in Brief

OPERATING SUMMARY	
Net sales	$10,946,897
Depreciation, amortization and depletion	1,588,425
Net income before income and mining taxes	557,148
Income and mining taxes	138,751
Net income before extraordinary item	418,397
Net earnings	459,197
Cash recovered from operations	2,261,814
Dividends paid	583,950

FINANCIAL POSITION	
Current assets	$ 3,638,294
Current liabilities	6,576,399
Working capital deficiency	2,938,105
Equity	12,251,594

PER SHARE		
Net income before extraordinary item	$	.36
Net earnings		.39
Dividends paid		.50
Equity		10.49
Cash recovered from operations		1.94

MISCELLANEOUS	
Issued capital-shares	1,167,901
Number of shareholders	3,178
Number of employees	364
Shares listed— Toronto Stock Exchange Canadian Stock Exchange	

The Annual Meeting of the Shareholders of Indusmin Limited will be held in the Mayfair Room of the King Edward Hotel, 37 King Street East, Toronto, on Tuesday, April 18, 1972, at the hour of 11:30 o'clock in the forenoon.

The front cover illustrates a shovel working at the quarry face loading broken ore onto an off-highway truck in the Aggregates Division, Acton quarry.

The 45-ton off-highway unit is fully loaded with six passes of the shovel bucket.

Head Office

7 King Street East, Toronto 210

Directors

*W. E. Curry—Toronto, Ontario
President
Gage Envelopes Limited

*K. Dunn—Toronto, Ontario
Controller, Falconbridge
Nickel Mines Limited

F. D. Hart—Arlington, Virginia
Managing Director—American Gas
Association, Inc.

E. L. Healy—Toronto, Ontario
Executive Vice-President Operations—
Falconbridge Nickel Mines Limited

J. J. Mather—Toronto, Ontario
Vice-President Industrial Minerals
Division—Falconbridge Nickel
Mines Limited

R. E. Paré—Montreal, Quebec
Executive

*G. T. N. Woodrooffe—Toronto, Ontario
Vice-President Corporate Affairs—
Falconbridge Nickel Mines Limited

*Members of the Audit Committee

Officers and Senior Management

J. J. Mather	—*President and Managing Director*
D. D. Anderson	—*Secretary*
J. D. Krane	—*Treasurer*
G. E. Dale	—*Controller*
G. E. Armstrong	—*General Manager Administration*
D. C. McDonald	—*Vice-President Engineering*
D. G. Minnes	—*General Manager Corporate Development*
R. C. Wilson	—*Director of Research*
C. M. Woodruff	—*Vice-President Operations*
A. G. Borud	—*Manager Aggregates Division*
R. S. Grindley	—*Manager Silica Division*
W. B. Midgette	—*Manager Nepheline Syenite Division*

Subsidiaries

American Nepheline Corporation—
Wholly owned
Suite No. 6, 11 West Cooke Road,
Columbus, Ohio 43214

Klukwan Iron Ore Corporation—
93% Voting interest
Suite 201, 311 Franklin Street,
Juneau, Alaska

Transfer Agents

Crown Trust Company,
302 Bay Street, Toronto

Auditors

McColl, Turner & Co.,
Peterborough, Ontario

Solicitors

Strathy, Archibald, Seagram and Cole,
Suite 1700, 110 Yonge Street,
Toronto, Ontario

Statistical Summary

	1966	1967	1968	1969	1970	1971
Sales	$ 5,666,318	$ 6,532,364	$ 7,379,255	$ 8,219,557	$ 9,736,136	$10,946,897
Income before write-offs and taxes	2,060,006	2,091,854	2,311,651	2,731,106	2,590,860	2,145,573
Depreciation, amortization and depletion	1,112,149	1,007,101	1,088,730	1,064,430	1,141,593	1,588,425
Expenditures on land, mining properties, plant, equipment and mine development	393,793	2,296,070(3)	1,970,946	4,862,124	3,450,202	1,800,604
Corporation, mining and income taxes (note 4)	389,400	298,096	536,689	694,658	627,768	138,751
Net income (note 4)	558,457	786,657	686,232	972,018	821,499	418,397
—per share	.52	.67	.59	.83	.70	.36
Extraordinary item	—	526,000	526,300	567,000	483,300	40,800
Net earnings after extraordinary item (note 4)	558,457	1,312,657	1,212,532	1,539,018	1,304,799	459,197
—per share	.52	1.12	1.04	1.32	1.12	.39
Shareholders' equity at December 31 (note 4)	9,470,054	11,761,086	10,992,406	11,655,498	12,376,347	12,251,594
—per share	8.88	10.07	9.41	9.98	10.60	10.49
Dividends	471,270	550,113	825,325	875,926	583,950	583,950

NOTES:

1. The per share calculations are based upon the number of shares outstanding at the end of each year expressed in terms of the present shares of Indusmin Limited.

2. The dividends paid by the constituent companies based upon the number of their shares outstanding were as follows:

	1966	1967	1968	1969	1970	1971
Industrial Minerals of Canada	55¢	60¢	75¢			
QMI Minerals Limited			10¢			
Indusmin Limited				75¢	50¢	50¢

3. Financed in part by the issue of 60,000 shares to the vendors for $984,970.

4. The figures for 1970 and prior years have been restated to reflect the adoption in 1971 of the tax allocation basis of accounting for provincial mining taxes.

To Our Shareholders

SALES

Sales by Quarter

	1971		1970	
First	$ 1,695,029	(15.5%)	$1,750,114	(18.0%)
Second	3,058,945	(28.0%)	2,417,826	(24.8%)
Third	3,122,963	(28.5%)	2,929,482	(30.1%)
Fourth	3,069,960	(28.0%)	2,638,714	(27.1%)
Total:	$10,946,897	(100.0%)	$9,736,136	(100.0%)

Sales by Division

	1971		1970	
Nepheline Syenite	$ 4,260,011	(38.9%)	$4,000,749	(41.1%)
Aggregates	2,718,977	(24.8%)	2,435,110	(25.0%)
Silica (Quebec)	2,743,763	(25.1%)	2,902,417	(29.8%)
Silica (Ontario)	1,224,146	(11.2%)	397,860	(4.1%)
Total:	$10,946,897	(100.0%)	$9,736,136	(100.0%)

Sales by Application

	Percentage of Total
Glass—Containers	26.7
Paving	15.1
Concrete Products	14.2
Ceramic Products	12.0
Glass—Miscellaneous	7.6
Abrasives	7.1
Filler Applications	5.4
Glass—Fibre	4.6
Other	7.3

Sales by Market Area

Canada	67.7
United States	28.5
Others	3.8

The 1971 sales revenues, although the highest in the history of the Company, fell far short of the objective for the year. Two circumstances prevented attainment of the objective. Firstly, normal market conditions for nepheline syenite and silica were severely disrupted during the summer months by several prolonged strikes in the consuming industries. Secondly, and by far the more significant, the operating problems in the Midland plant were not totally eliminated, and market opportunities temporarily were lost.

The combination of a stronger economy, with the attendant rise in market demand and the anticipated improved performance at the Midland plant, is expected to generate a substantial increase in the sales dollar volume in 1972.

FINANCIAL

Whereas sales revenues in 1971 exceeded those of the previous year by $1,200,000, the results in total were disappointing. Profits declined from $0.70 per share ($1.12 including extraordinary item) in 1970 to $0.36 per share ($0.39 including extraordinary item) in 1971. The cost of products sold rose from 57.0% of sales in 1970 to 65.5% in 1971. Several factors contributed to the decline in profitability, the most material being: operating costs in the Aggregate and Quebec Silica Divisions were abnormally high during the entire first six months of the year; production from the Midland plant did not reach economic levels; the cost of servicing the debt; and finally, the inflationary pressures.

The outlook for 1972 is for much improvement.

FINANCIAL

	1971	1970
Net income —before extraordinary item	$418,397	$ 821,499
—as a percentage of sales	3.8%	8.4%
Add —extraordinary item	$ 40,800	$ 483,300
Net earnings	$459,197	$1,304,799

Net income as a percentage of sales declined from 8.4% in 1970 to 3.8% in 1971; however the downward trend was arrested in September. Net income (before the extraordinary item) in the fourth quarter was $285,530; being 68.2% of the total earnings for the year.

The return (before the extraordinary item) on shareholder's equity in 1971 was 3.4%, down from 6.6% in 1970.

The cash recovery from operations amounted to $2,261,814 ($1.94 per share). The comparable figures for 1970 are $2,667,982 ($2.28 per share). The deficit in working capital, $2,938,105, while up some $269,217 from a year earlier, showed much improvement over June when it stood at $3,307,461.

The Ontario Silica Division recorded a loss on operations of $580,000 in 1971 after write-offs of $566,000 resulting in a drain on cash flow of $14,000.

Interest on borrowed funds amounting to $374,765 was charged to operations. The bank advances attained a high of $6,200,000 in July, declining to $5,187,556 at the year end. Further and substantial reductions in the amount of these advances will be achieved by the end of 1972.

Write-offs amounted to $1,588,425, being 70.2% of the cash flow.

Expenditures on land, plant, equipment and mine development amounted to $1,800,604 and included a payment of $392,000 in final settlement of the contractor's claims for work performed in the construction of plant for the Ontario Silica Division. The anticipated total company outlay in 1972 in this category is $1,200,000, of which some 17% is allocated for additional environmental control measures.

The net accumulation of charges against earnings which had not been claimed for income tax purposes—the tax equivalent of which was $601,600 at the year end—for the most part, will be claimed in 1972 and the extraordinary credit to earnings will not be available thereafter.

The new federal income tax legislation became effective 1 January 1972. The significant change affecting Indusmin is that governing depletion allowances. Briefly and simply stated, commencing 1 January 1977, depletion allowances must be earned, one dollar of depletion for each three dollars of eligible expenditure. Until that date, the transition period provided for in the legislation will permit the continuation of the existing rate (33⅓%). Indusmin has accumulated to date eligible expenditures amounting to approximately $3,000,000. This will permit the company to claim substantial depletion allowances beyond 1 January 1977.

DIVIDENDS

Regular dividends of 25¢ per share were paid on May 17 and December 20 for a total of 50¢ per share in 1971. These disbursements amounted to $583,950 bringing the total dividends paid to our shareholders since inception to $5,945,590.

RESEARCH

Indusmin's support of research and development increased to $223,000 in 1971. Revenues obtained from the Canadian Government in the form of research grants and work undertaken for others reduced the net cost to $180,000.

There were significant research developments in all phases of this Department's responsibilities: organic and inorganic chemistry; analytical chemistry; physical chemistry; and process technology.

The strong support provided to the marketing department in the areas of paint and plastic technology has resulted in significant growth of our "MINEX" products. Similarly, this technical support function of the research activity has been a major factor in enabling us to maintain a dominant position as a supplier to the glass and ceramic industries.

New analytical techniques were developed, improving product quality control and our service to the customer.

Early in 1971, a research program, partially financed by the National Research Council, was initiated regarding the physical chemistry of nepheline syenite and silica. This program will progress into the pilot-testing phase in 1972. Certain details of the development work we believe to be patentable and investigations in this direction have been initiated.

Techniques were developed for studying the clay minerals, bentonite and kaolin, to assist the exploration group in the economic evaluation of these prospects. Much assistance was also given with the work related to the solution of the metallurgical problems at the Midland plant of the Ontario Silica Division.

Your Company's research and development group is presently studying several new possibilities for the further diversification of the applications for your Company's products. Of particular interest is the apparent potential within the field of environmental control.

EXPLORATION AND DEVELOPMENT

These activities did not produce in 1971 any immediate potential for growth or diversification of the corporate activities. However, three major prospects remain active and are sufficiently interesting to warrant continuing examination.

A feldspathic sand deposit in British Columbia has been obtained. The immediate market potential is short of economic size, but is growing. The property will be held in good standing awaiting more favorable market conditions, and must be regarded as a long-term prospect.

The kaolin property in Northern Ontario will yield, according to our determinations, products of satisfactory quality. Extraction methods and product performance have been defined. The mining problems are formidable due to the nature of the terrain, the climate and the abundance of water. Economic mining methods have not yet been found.

A bentonite deposit in Saskatchewan indicates much promise. The reserves already identified are in excess of 4,000,000 tons. Early product evaluations, as a binder for the pelletization of iron ores are very encouraging. These evaluations and the definition of freight costs and other operating factors continue. Negotiations for an option to acquire the property have been completed.

The field of solid waste disposal is another interesting phase of our activities. The feasibility of utilizing the mined-out areas of our open pits in the Toronto area for the disposal of waste is under study. Discussions with all levels of government have been initiated.

KLUKWAN

The Indusmin holding in Klukwan Iron Ore Corporation consists of a 93.8% voting interest and a 71.1% interest in profits.

Klukwan at December 31 had working capital of (US) $221,090. Indusmin's share of the 1971 dividend was (US) $28,400.

Klukwan's principal asset is a large low-grade iron deposit in Alaska which is under lease to the United States Steel Corporation until the year 2036. United States Steel has the right during the term of the agreement to purchase the properties for $10,000,000 less all royalties paid prior to the date of purchase; they also have the right to terminate the agreement at any time on a 90-day written notice. The annual minimum royalty rises to $100,000 in 1972. United States Steel has sublet for two years to Japanese interests who are currently conducting feasibility studies and exploration work.

SHAREHOLDERS

There were 3,178 Indusmin shareholders as of 31 December 1971. Falconbridge Nickel Mines Limited held 806,030 shares, or approximately 69% of the 1,167,901 shares issued.

OUTLOOK

The prospects for 1972 are, for the most part, encouraging. The economy is strengthening and an end to the operating difficulties at Midland is in sight. The initial contribution to net earnings from this new division will be modest; however there will be a positive and substantial contribution to cash flow ending the drain encountered in 1971. Management remains optimistic with respect to the long-term benefits to be derived from this most recent diversification. Inflation, we anticipate, will still be an important factor in 1972.

APPRECIATION

Your Directors acknowledge with gratitude the continuing cooperation and loyalty of the shareholders, employees, customers and suppliers.

On behalf of the Board,

J.J. Mather
President and Managing Director
February 14, 1972

Nepheline Syenite Division

Mine Manager: D. C. Cook

Manager: W. B. Midgette

Sales of nepheline syenite products increased during 1971 despite a slight economic downturn and spotty market conditions within the glass and ceramic industries. Our range of products tailored for the paint and plastic industries continued to grow, and the wider acceptance of MINEX extender pigments in coatings, particularly the latex type, is most encouraging. Although the higher value of the Canadian dollar has continued to have a depressing effect on a major portion of sales revenue and resulting profitability, intense marketing efforts resulted in an increase in sales volume in comparison with 1970.

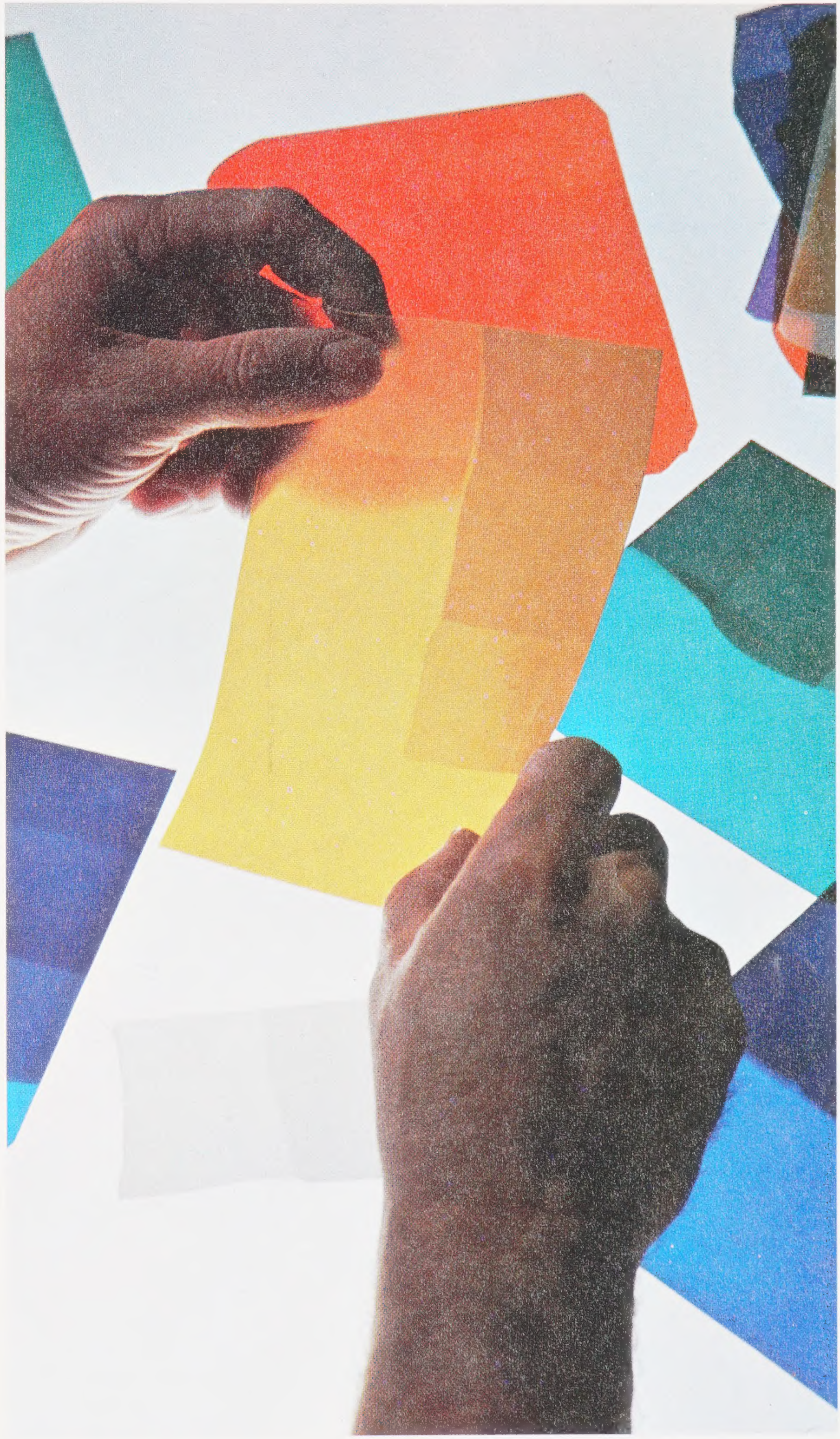
The sales outlook for 1972, in all market areas, is favorable. The economy in North America exhibits considerable vigor. Major segments of the Canadian glass container industry were affected by lengthy strikes in 1971. Sales to this market should much improve in 1972. Improvement in the overseas market is less certain but we anticipate that the 1971 volume will be at least maintained.

Continued exploration during 1971 resulted in indicated reserves of ore greater than the amount of ore mined, and the 25-year supply position established years ago for nepheline syenite is being maintained. A new mining area has been opened at Nephton which will make ore blending more efficient.

There is considerable upward pressure on operating costs due to inflation; however the effect has been minimized by the improvements achieved in productivity.

Capital expenditures in 1971 amounted to $206,000. Expansion of the fine-grinding section of the mill begun in 1970 was essentially completed. Additional dust collection equipment was installed during 1971, and ecological considerations point to further work on dust collection and land reclamation in 1972. The capital expenditure budget provides for the expenditure of about $480,000 in 1972.

The current labour contract will expire on October 11, 1972. The existing agreement, signed in January 1971 and made retroactive to October 12, 1970, granted wage increases of 17.8% during the two-year term of the contract in addition to substantial increases in employee welfare benefits.



The development of MINEX through research has proven an important addition to the nepheline syenite product line. MINEX, as a filler, has distinct advantages over other fillers in PVC flexible plastics. The comparison of the flexible plastic swatches illustrates the difference between equal amounts of MINEX (left) and another commonly used filler (right). The MINEX portion shows greater color brightness and transparency.

Aggregates Division

Manager: A. G. Borud

Mine Manager: D. L. Murdy

The sales volume in 1971 in comparison with the previous year represented an increase of 8.6% in tons sold and 11.7% in dollar volume. Whereas sales revenues showed satisfactory growth, profits declined. The rise in operating costs was not totally offset by the price increase established. We are forecasting that there will be further sales growth in 1972.

The earnings of the Acton operation were abnormally low in 1971 for a variety of reasons, not the least of which was the loss of production due to a major breakdown of the primary crusher in the last quarter. New product requirements and more stringent customer specifications contributed to the increased operating costs in 1971. We plan to purchase additional equipment to increase productivity and improve quality, and hopefully, these and other measures taken will limit cost increases to reasonable levels in 1972.

Your Company's land holdings at Acton total 780 acres, most of which is underlain with limestone. Fewer than 100 acres have been developed to date. The reserves of limestone will support operations at the current production rates for fifty years.

The Halton operation was modestly profitable and in terms of sales and earnings performed very much in accordance with estimates. The leasing of this facility, as predicted, has strengthened the Company's competitive position in the market place and broadly expanded the range of service we can offer the consumer.

Expenditures on site rehabilitation at both Acton and Halton, although substantial, must be increased in the future to comply with the new regulations of the Ontario Government released in December. Clarification of certain key regulations is still being sought from the Government. We do not anticipate difficulty in renewing our operating permits in April.

Capital expenditures for 1971 amounted to $173,000. The budget estimate for 1972 is $239,000.

A Collective Labour Agreement covering the Acton operation was signed in April 1971. It is retroactive to November 1, 1970, and expires on October 31, 1972. The wage provision grants an increase of 21.7% over the two-year life of the Agreement. The Halton employees are not represented by a union.

One of the many products supplied to the construction industry by the Aggregates Division is Gabion Stone. As illustrated, when placed in earth cuts and exposed areas, prevents erosion.

Silica Division

Manager: R. S. Grindley

Quebec Operations

Mine Manager: R. Lavertu

A two-month labour strike at two plants of a major customer had an adverse effect on 1971 performance. As a result, dollar sales were down 5.5% from 1970.

The sales outlook for 1972 sales is for higher than average growth. We anticipate that the limiting factor will be our ability to produce, inasmuch as capital for plant expansion has been withheld the past three years due to the Federal Government expropriation in 1969 of the St. Canut property for a new airport.

Earnings in this Division in 1971 were significantly below those of the previous year, arising from a lower overall sales volume, a less profitable product mix, and sharp inflationary increases in operating costs, especially during the first half of the year.

We must again report to shareholders that the issue of expropriation of the St. Canut property is still not finalized. There are indications that the Indusmin operations are not a near-term obstacle and consequently, the expropriation order may be abandoned or Indusmin may be granted some form of long-term right of occupancy. In order to continue operations, we had to request permission in 1970 to occupy additional lands and open a new quarry. Permission was granted on the basis of a twenty-year tenure. This climate of uncertainty has been harmful to Indusmin. For the past three years, it has been necessary for management to adopt a short-term view and limit expenditures to those which were absolutely essential to keep the property running. No capital improvements or expansion could be undertaken, with the result that opportunities for profit have had to be foregone. As stated previously, a claim will be made by your Company for damages incurred.

The new quarry on the St. Canut property was brought into production during the fourth quarter, with an ore reserve potential sufficient for fifteen years' operation. The St. Donat property is the ore source for only a small percentage of the total production and its reserves will meet the requirements of many years at the present production level.

New grinding and wet circuit operating techniques have resulted in improved productivity of sand grades.

Substantial improvements were made to the mill dust control system. Expenditures for environmental control are absorbing a greatly increased proportion of both capital and operating costs.

The 1971 capital expenditures in this division amounted to $315,000. The 1972 capital budget ($151,000) is again limited to essentials. An additional $124,000 will be expended on deferred development in the quarry.

The current Collective Bargaining Agreement at St. Canut expires in January 1974. The Agreement provided for wage increases of 29.4% over a period of three years.

The St. Donat Agreement expires after three years in force in July 1973 and grants wage increases amounting to 23.2% over the life of the contract.

Because of its highly abrasive qualities, Indusmin silica sand finds a valuable use as sandblast material to clean building exteriors.

Ontario Operations

Mine Manager: A. R. Watt

Reduced demand for Badgeley Island lump silica and production limitations on Midland plant glass grade silica sand resulted in a disappointing sales volume in 1971.

We are anticipating that in 1972 the demand for lump silica will improve in accord with increased activity in the steel industry. Sales of silica sand will increase sharply in mid-year if the anticipated improvements in performance are realized.

The Badgeley Island quarry and crushing plant operated successfully during the 1971 processing season and is operating in accordance with the design conditions. This installation provides lump silica for direct sale to the ferro-alloy industry and silica ore for further processing into silica sand and flour products at the Midland, Ontario mill. The proven ore reserve position, based on current market patterns, is sufficient to supply the operation for more than twenty years.

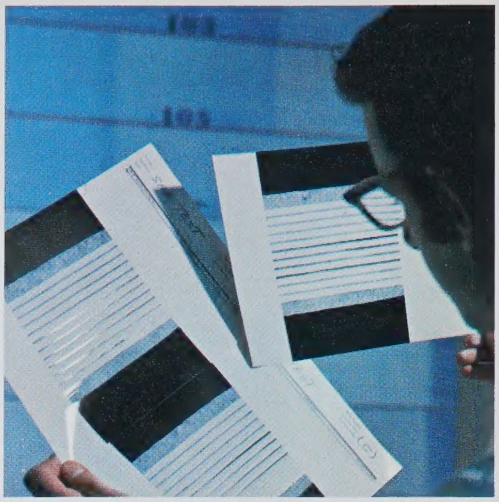
Silica sand shipments commenced in February, and were maintained on a restricted basis throughout the year. Design problems with the mill ore grinding and sand classification sections and necessary problem-solving test programs prevented the increase of sand production to acceptable levels. The grinding problem has been solved by converting the rod mill to a ball mill and considerable progress is being made on the sand classification situation. It is estimated that all major mill modifications will be completed by mid-year and that the mill will operate satisfactorily thereafter. The fine grinding section of the Midland plant has operated without undue difficulty since start-up in 1970.

In addition to production equipment problems, considerable difficulty was encountered in achieving acceptable performance from the extensive dust control installation. These particular problems were largely solved during the year although minor modifications are still required.

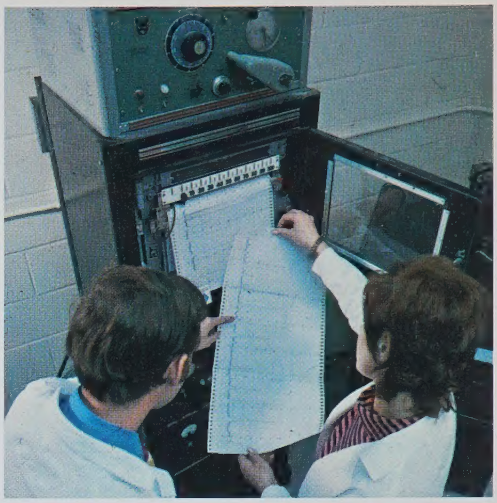
Capital expenditures in 1971 totaled $996,000. The budget estimate for 1972 is $214,000.

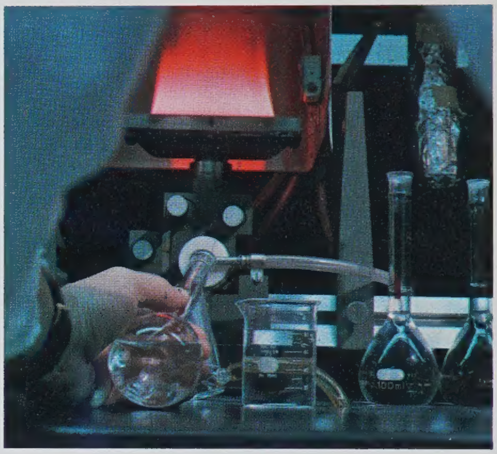
The Midland and Badgeley Island operations are covered by separate Collective Bargaining Agreements. The Midland contract expires in October 1973 and the Badgeley contract in April of the same year. The wage increases amounted to 23.8% at Midland (over two and half years), and 20.8% at Badgeley (over two years).

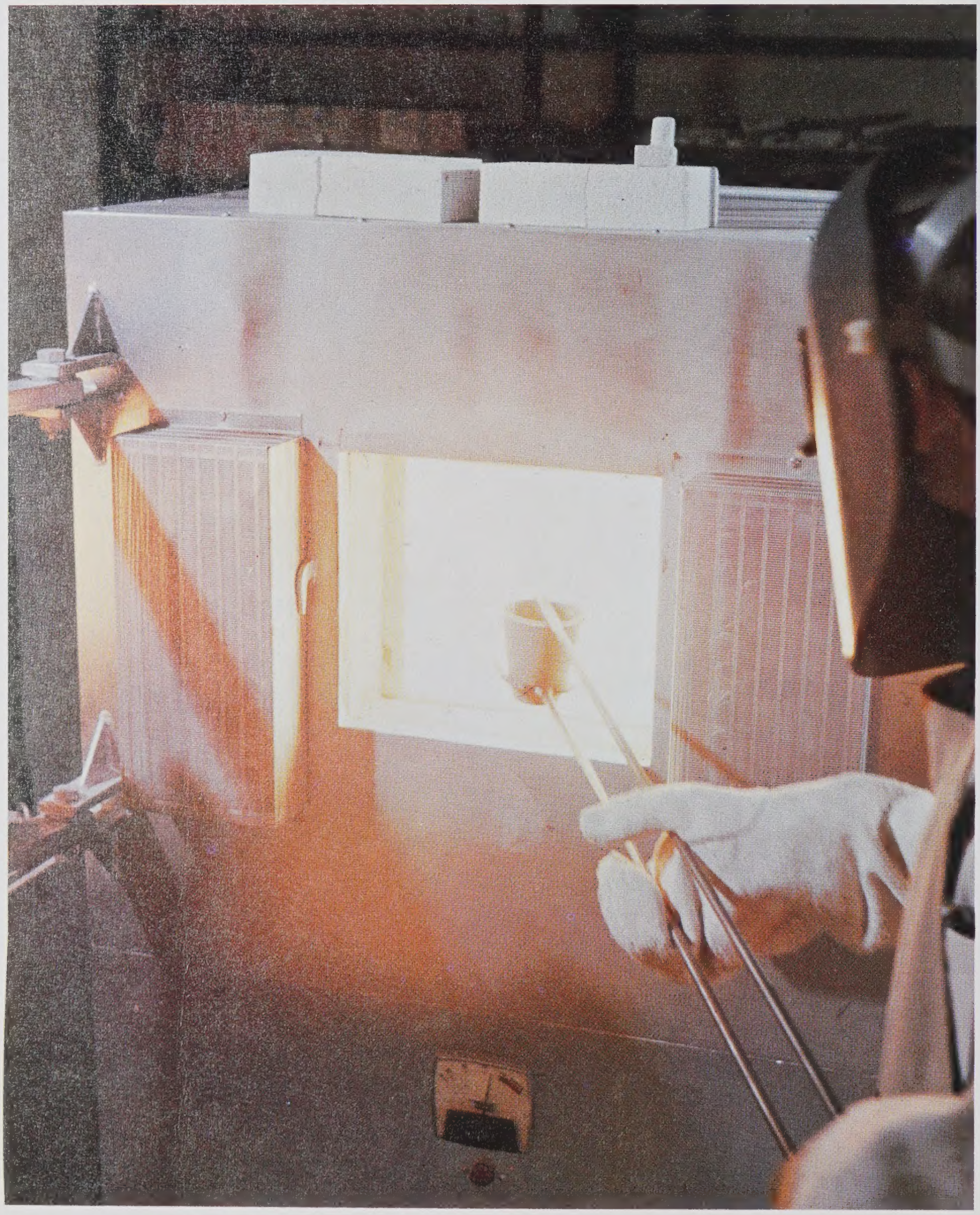
Indusmin products are basic raw materials used in the manufacture of many different items. It is through research that existing products find new uses and new products developed.



The Organic Coatings Research Department do a large number of paint formulations yearly. One of the many tests conducted on each new formulation is the sag test, which measures sag of paint when applied to a vertical surface.







Indusmin is a major supplier to the glass and ceramic industries. Continual evaluation is made of the melting properties of various nepheline syenite and silica products, including an endeavour to improve melting properties by combining batch materials into pellets prior to melting.

Research has and will continue to play an essential part in Indusmin's growth. A wide range of skills are used and developed to carry out mineral identification.

Top: X-ray diffraction is used to examine mineral specimens to establish their crystal structure;

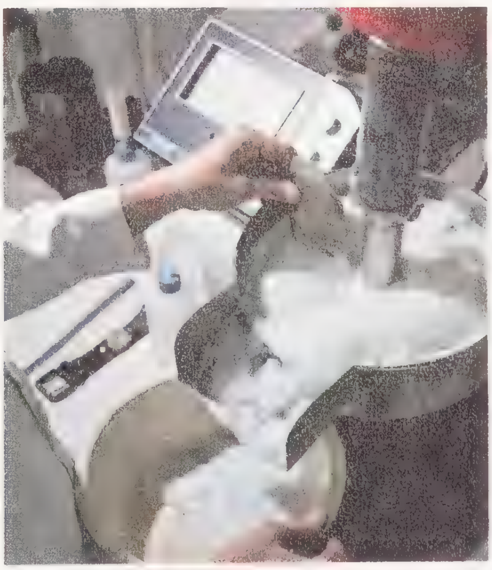
Centre: Chemical analysis by atomic absorption spectrophotometer. This technique is widely known for its accurate chemical determinations in parts per million.

Bottom: By petrographic examination.

Top: Many properties of nepheline syenite and silica are known; however it is through the application of physical chemistry research that their lesser known properties are revealed.

Centre: Casting of testing specimens of sanitary ware.

Bottom: The Research Group in searching for new uses for existing products test various combinations of aggregates and silica in concrete. Illustrated is compressive testing of a concrete cylinder to establish failure behavior.



Improved production techniques have their beginnings in the Research Centre. Here, pilot plant models which are scaled to actual plant equipment, allow the research staff to develop and test modifications to existing production equipment and new methods to process Indusmin products.

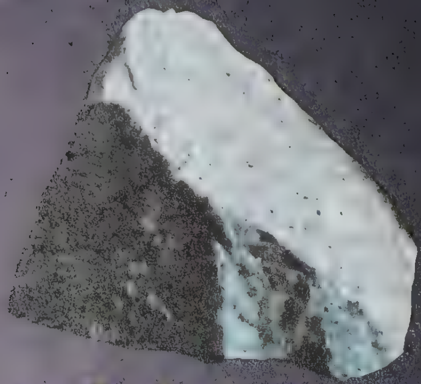
Top and Centre: Magnetic separation is used to separate iron-bearing particles from raw materials.

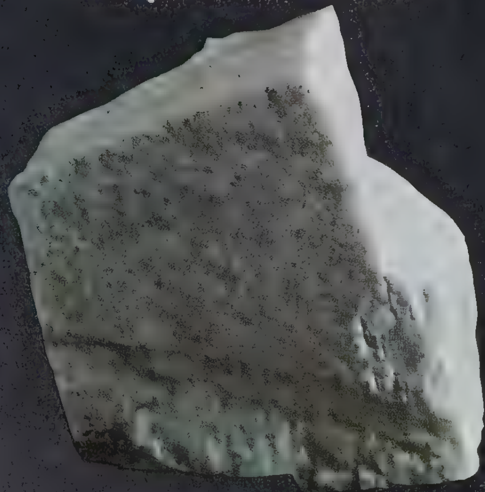
Bottom: A froth flotation cell test

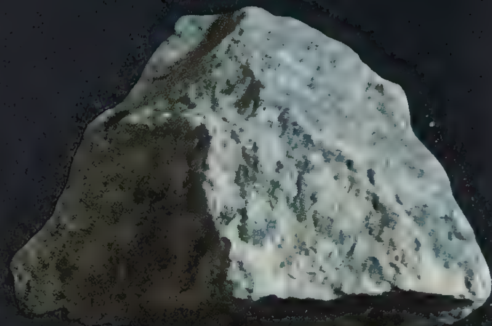
Top: Vibrating screens used to separate particle sizes

Bottom: An examination of pH values

Operations







Nepheline Syenite Division

PLANT No. 1
Nephton, Ontario

Silica Division

PLANT No. 2
St. Canut, Quebec

PLANT No. 5
Badgeley Island, Ontario

PLANT No. 3
St. Donat, Quebec

PLANT No. 6
Midland, Ontario

Aggregates Division

PLANT No. 4
Acton, Ontario

PLANT No. 7
Milton, Ontario

YARD No. 2
Scarborough, Ontario

YARD No. 3
Pinecrest, Ontario

Research Centre

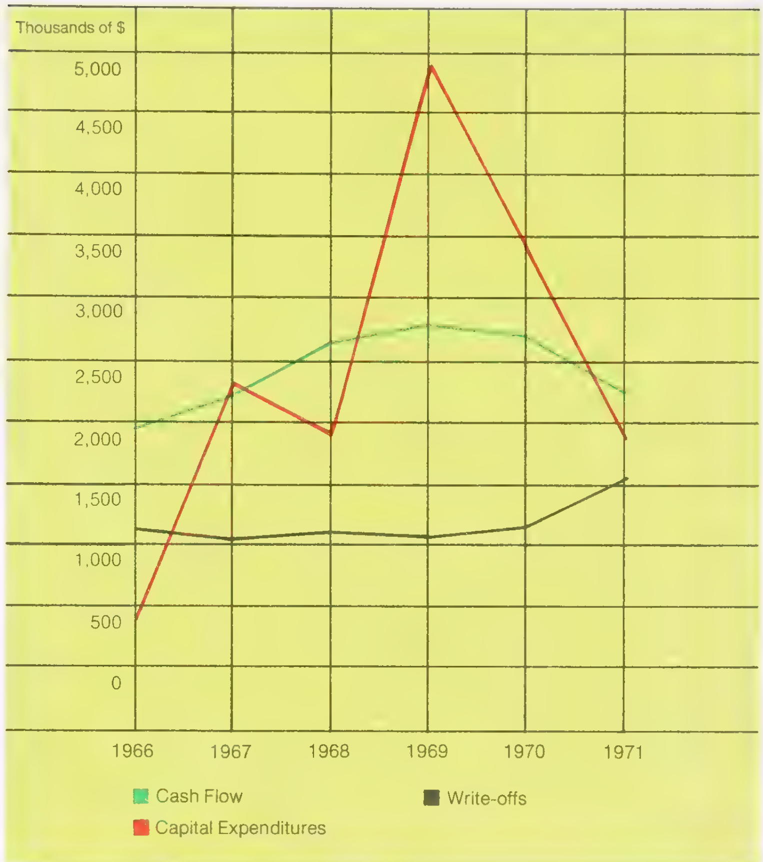
1933 Leslie Street, Don Mills, Ontario

Product Applications

	Container Glass	Sheet Glass	Fibre Glass	Concrete Products	Paint	Vinyl Plastic	Ceramics	Foundry	Construction	Asbestos Pipe	Abrasives	Foam Rubber
Nepheline Syenite	●	●	●		●	●	●					●
Silica	●	●	●	●	●		●	●	●	●	●	
Aggregates				●					●			

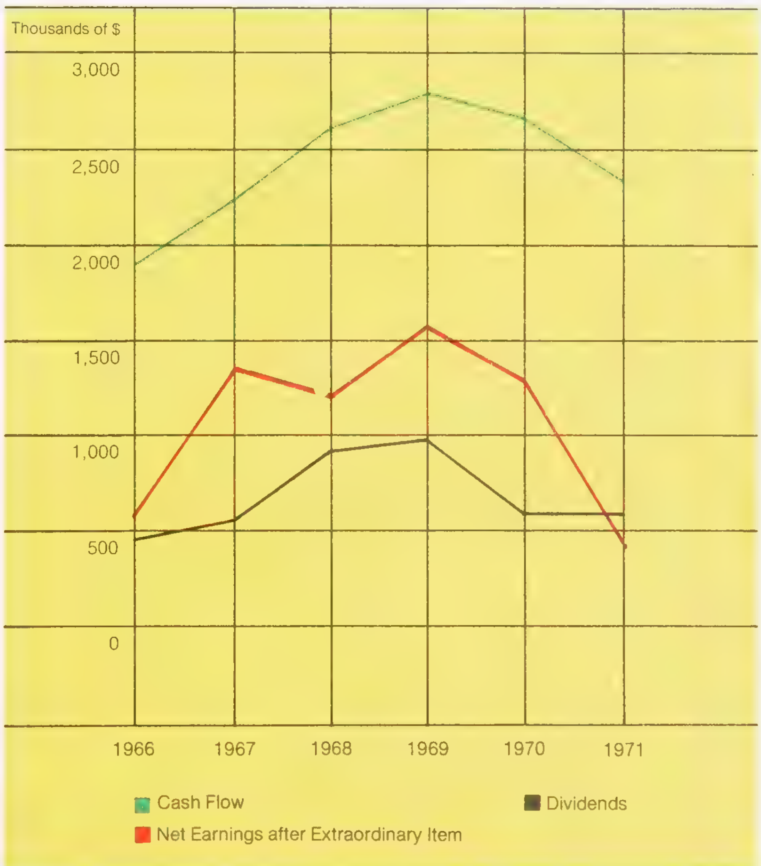
Shareholders' Equity Working Capital

Cash Flow Depreciation Capital Expenditures



Net Sales Income

Cash Flow Net Earnings Dividend



Consolidated Balance Sheet

as at December 31, 1971

ASSETS	1971	1970
CURRENT		
Cash	$ 12,945	$ 14,548
Short term investments, at cost	—	4,267
Accounts receivable for product and freight	2,475,100	2,761,959
Inventories of crude ore and finished products—valued at the lower of cost or net realizable value	1,054,758	1,109,916
Prepaid expenses and other current assets	95,491	120,494
	3,638,294	4,011,184
DEFERRED INCOME TAXES (note 4)	176,400	152,600
INVESTMENT IN UNCONSOLIDATED SUBSIDIARY AND OTHER COMPANIES, at cost		
Subsidiary company (note 1)	321,053	321,053
Associated and other companies (approximate market value $1,416,635)	447,313	447,313
	768,366	768,366
FIXED		
Building, plant and equipment, at cost	23,975,181	22,772,028
less		
Accumulated depreciation	12,582,444	11,373,044
	11,392,737	11,398,984
Mining properties and land, less depletion	979,718	1,017,411
	12,372,455	12,416,395
OTHER		
Mine and mill supplies, at cost	805,887	685,873
Deferred development expenditures, less amounts written off	999,405	894,647
Other mining properties and expenditures thereon	672,259	688,891
Loans receivable, secured	34,027	12,960
	2,511,578	2,282,371
	$19,467,093	$19,630,916

limited
(incorporated under the laws of Canada)

LIABILITIES

	1971	1970
CURRENT		
Bank advances	$ 5,187,556	$ 5,394,067
Accounts payable and accrued charges	1,367,685	1,245,958
Estimated income and mining taxes payable	15,761	10,374
Principal payments on mortgage loans due within one year	5,397	29,673
	6,576,399	6,680,072
LONG TERM		
Mortgage loans, less amounts due within one year	138,800	144,197
DEFERRED MINING TAXES (note 4)	500,300	430,300
SHAREHOLDERS' EQUITY		
Capital		
Authorized—2,000,000 shares with no par value		
Issued and fully paid—1,167,901 shares	10,854,014	10,854,014
Retained earnings	1,397,580	1,522,333
	12,251,594	12,376,347
	$19,467,093	$19,630,916

Approved by the Board

W. E. CURRY, *Director*

J. J. MATHER, *Director*

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Indusmin Limited and its wholly-owned subsidiary company as at December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Indusmin Limited and its consolidated subsidiary as at December 31, 1971 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the deferral method of provincial mining tax allocation referred to in note 4 to the consolidated financial statements, on a basis consistent with that of the preceding year.

McColl, Turner & Co

Peterborough, Canada
February 3, 1972

McColl, Turner & Co
Chartered Accountants

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

year ended December 31, 1971

	1971	1970
Sales of all products	$10,946,897	$ 9,736,136
Cost of products sold	7,165,808	5,544,852
Selling, general and administrative expenses	1,712,719	1,692,156
	8,878,527	7,237,008
Operating profit before providing for depletion, development expenditures and depreciation	2,068,370	2,499,128
Depletion of limestone deposits and mining lands	30,707	12,508
Development expenditures written off	43,675	25,607
Depreciation of plant and equipment	1,514,043	1,103,478
	1,588,425	1,141,593
Operating profit	479,945	1,357,535
Income from investments	76,930*	133,732*
Profit (loss) on sale of investments	273	(42,000)
	557,148	1,449,267
Income and mining taxes (notes 3 and 4):		
Currently payable	51,751	21,368
Deferred	87,000	606,400
	138,751	627,768
Net income before the undernoted extraordinary item	418,397	821,499
Extraordinary item (note 3)	40,800	483,300
Net earnings for the year	459,197	1,304,799
Retained earnings, beginning of year (note 4)	1,522,333	801,484
	1,981,530	2,106,283
Dividends paid	583,950	583,950
Retained earnings, end of year	$ 1,397,580	$ 1,522,333

*Including in 1971 dividends of $74,487 received from associated companies ($87,341 in 1970).

	1971	1970
Earnings per share:		
Before extraordinary item	$ .36	$ .70
After extraordinary item	$ .39	$1.12

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

year ended December 31, 1971

	1971	1970
SOURCE OF FUNDS		
Net earnings for the year	$ 459,197	$ 1,304,799
Charges against operations which did not require a cash outlay during the year		
Depreciation, depletion and amortization of deferred development expenditures	1,588,425	1,141,593
Disposal of fixed and other assets	167,992	98,490
Income and mining taxes deferred less extraordinary item (notes 3 and 4)	46,200	123,100
	2,261,814	2,667,982
Refund of special refundable tax	—	41,647
	2,261,814	2,709,629
APPLICATION OF FUNDS		
Expenditures on land, plant, equipment and mine development	1,798,113	3,448,649
Expenditures on other mining properties	2,491	1,553
Dividends paid to shareholders	583,950	583,950
Provision for payments on mortgage loans	5,397	29,845
Expenditures on sundry other assets	141,080	179,658
	2,531,031	4,243,655
DECREASE IN WORKING CAPITAL	269,217	1,534,026
WORKING CAPITAL DEFICIENCY, beginning of year	2,668,888	1,134,862
WORKING CAPITAL DEFICIENCY, end of year	$ 2,938,105	$ 2,668,888

STATEMENT OF INVESTMENT IN SHARES OF SUBSIDIARY, ASSOCIATED AND OTHER COMPANIES

year ended December 31, 1971

	Number of shares	Indicated market value (note A)	Cost
SUBSIDIARY COMPANY:			
Klukwan Iron Ore Corporation (note B)	2,840,000		$321,053
ASSOCIATED AND OTHER COMPANIES:			
Falconbridge Nickel Mines Limited	16,759	$1,390,997	433,196
Quebec Cobalt and Exploration Limited	43,200	23,760	4,968
Other		1,878	9,149
		$1,416,635	447,313
Total investment in shares of subsidiary, associated and other companies			$768,366

NOTES:

A. The market values shown above are based on closing market prices at December 31, 1971. The indicated market value of certain securities is not necessarily indicative of the amount that could be realized if the securities were to be sold due to the number of shares involved.

B. The company owns 95.6% of the Class A shares of Klukwan Iron Ore Corporation; this represents a 93.8% voting interest and a 71.1% interest in profits of Klukwan.

Notes to Consolidated Financial Statements

1. The consolidated financial statements for 1971 reflect the financial position and the results of the operations of Indusmin Limited and the wholly-owned subsidiary company, American Nepheline Corporation.

The financial statements of the partially-owned subsidiary company, Klukwan Iron Ore Corporation, have not been consolidated with those of Indusmin Limited. The investment in the shares of this company is carried at cost. In 1971 Klukwan Iron Ore Corporation declared a dividend of $39,949 which dividend exceeded by $13,108 the accumulated earnings to December 31, 1971. The company's share of this dividend—$(U.S.) 28,400—less U.S. non-resident tax thereon, has been included in net earnings for the year.

2. Assets and liabilities in currencies other than Canadian dollars have been translated into Canadian dollars at current quoted rates of exchange at December 31, 1971 except fixed assets and the related accumulated depreciation which have been translated at the rates prevailing when the expenditures on fixed assets were made. Revenues and expenses in currencies other than Canadian dollars have been translated into Canadian dollars at the average monthly quoted rates of exchange except that provisions for depreciation have been translated at the rates of exchange prevailing when the expenditures on the related fixed assets were made.

3. As at January 1, 1971 the company—and the predecessor companies—had charged in net total, greater amounts of depreciation against earnings than had been claimed as capital cost allowance in determining taxable income for corporate income tax purposes. These were offset, in part, by development expenses claimed for tax purposes in the year of expenditure but not as yet completely charged against earnings. As a result, the company had available at that date, under the deferred tax allocation method of accounting for corporate income taxes, an accumulation of charges against earnings which had not been claimed for tax purposes and, thus, were potentially available for tax purposes in future years.

The tax equivalent of this accumulated amount at January 1, 1971—calculated at current tax rates was $642,400. There has been applied against this amount $40,800 being the deferred income taxes for 1971 leaving $601,600 which should be available to offset taxes arising from similar timing differences in future years.

4. The company adopted the policy in 1971 of charging earnings with those provincial mining taxes which are deferred by reason of claiming depreciation and development expenditures in excess of the charges related thereto as recorded in the accounts. The total of such mining taxes deferred as at December 31, 1971 is $500,300 including $70,000 with respect to 1971 (1970—$191,200).

The adoption of the policy with respect to mining taxes has the effect of reducing the corporate income taxes charged against operations in 1971 and prior years under the deferred tax allocation method of accounting for corporate income taxes adopted by the company in 1969. The cumulative reduction in deferred income taxes to December 31, 1971 is $176,400 including $23,800 with respect to 1971 (1970—$68,100).

The net effect of providing for deferred mining taxes is to reduce 1971 net earnings by $46,200 (1970—$123,100). The 1970 figures have been restated to reflect the policy now adopted, including the adjustment of $154,600 to retained earnings at the beginning of that year.

5. The consolidated statement of earnings and retained earnings includes interest expense of $374,765 in 1971 ($366,094 in 1970).

6. The board of directors of the parent company, Indusmin Limited, consists of seven directors whose remuneration as directors totalled $4,016 in 1971. There are thirteen officers and senior managers, one of whom is also a director of the company. The remuneration of the officers and senior managers aggregated $286,083 in 1971. No remuneration of directors, officers or senior managers of the parent company has been included in the accounts of the subsidiary companies.

7. The company in 1970 leased certain mineral properties and equipment from Halton Crushed Stone Limited for a five year period subject to options to renew for further five year periods. The agreements provide for an annual rental of $90,000 plus a participation in profits arising from production from the properties and a royalty on the products sold.

8. In March 1969 the Canadian Government issued an order expropriating a portion of the company's property near St. Canut, Quebec for the construction of the new Montreal International Airport. In April 1970 the Government indicated an intention, with certain qualifications, to abandon expropriation proceedings. To date no formal notice of abandonment has been received. In June 1970 permission to mine on part of the property for a twenty year term, subject to restrictions, was given. Subsequent negotiations to clarify the position of the company with respect to claims for compensation and related matters have not been concluded.

9. The Midland plant was deemed to have come into production on April 1, 1971. Net operating expenses of $51,686 incurred in 1971 prior to that date were deferred as pre-operating expenses and are being amortized along with similar expenses incurred in prior years, over the life of the related orebody.

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